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HOUSE WAYS AND MEANS COMMITTEE
SUBCOMMITTEE ON OVERSIGHT
ON IRS INFORMATION TECHNOLOGY SYSTEMS
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INTRODUCTION

Chairman Buchanan, Ranking Member Lewis and members of the Subcommittee, thank you for the opportunity to appear before you today to discuss the IRS's information technology (IT) systems and their role in delivering taxpayer services.

Providing outstanding taxpayer service is an ongoing, high priority for the IRS. Making it as easy as possible for taxpayers to determine what they owe by providing them prompt answers to the questions they and their preparers have is a fundamental part of our overall mission.

A safe, secure, efficient and up-to-date IT system plays an increasingly important role in our efforts to sustain and improve the taxpayer experience. To deliver the improvements the IRS envisions to taxpayer service, and even to continue maintaining the current level of services we provide, it is critical for the agency's information technology systems to be up-to-date.

But our IT systems have long been operating with antiquated hardware and software. Approximately 64 percent of IRS hardware is aged and out of warranty, and 32 percent of software is two or more releases behind the industry standard, with 15 percent more than four releases behind.

The IRS needs to upgrade its IT infrastructure, not only to help ensure reliable and modern taxpayer services, but also to mitigate risks to the system. We are concerned that the potential for a catastrophic system failure is increasing as our infrastructure continues to age. Thus, replacing this aging IT infrastructure is a high priority for the IRS.

The IRS remains very appreciative of Treasury Secretary Mnuchin's support for the IRS to have appropriate resources, and for upgrading our IT systems. In fact,

a priority in the President's Fiscal Year (FY) 2018 Budget is helping the IRS improve information services by addressing its antiquated IT.

The President's budget request includes \$3.9 billion for operations support. Within that total, \$2.07 billion is allocated for information services, which is \$216.1 million, or 11.6 percent, above the FY 2017 enacted level. This funding will allow the IRS to take the initial steps needed to bring our IT infrastructure up to date.

TAXPAYER SERVICES SUPPORTED BY IT SYSTEMS

Delivering the Tax Filing Season

The most visible taxpayer service the IRS provides is the delivery of a smooth, problem-free tax filing season, so that people can file their returns and receive their refunds as quickly and easily as possible. Our IT systems process approximately 150 million individual income tax returns and more than \$300 billion in refunds each year.

Our ability to effectively manage the IRS's IT systems, despite our aged infrastructure, is evidenced by the fact that the IRS continues to deliver smooth filing seasons, amid steady growth both in the number of returns filed and the percentage of electronically filed returns over the past decade.

Today, nearly 90 percent of individual income tax returns are filed electronically. Return processing has gone smoothly, even in years where passage of tax legislation late in the year has required the IRS to move quickly to update our systems to accommodate tax changes enacted by Congress.

During the filing season and throughout the year, the IRS provides taxpayer services through a variety of delivery channels to help taxpayers file their tax returns accurately and on time. Here too, our IT systems are an essential component of our service efforts. For example, IT supports our call center operation, which is one of the largest in the country, and which answered more than 64 million taxpayers calls in 2016, including automated calls and those using a live assistor.

Our IT systems also support our ability to offer online services, which we continue to expand in response to increasing taxpayer demand. We provide a wealth of tax information on our website, IRS.gov, which was visited more than 500 million times during FY 2016, and more than 400 million times so far in FY 2017. The IRS recently completed a revamp of IRS.gov to make the site more user-friendly and to make it easier for taxpayers to view site content on their mobile devices.

Protecting Taxpayer Data

Providing outstanding taxpayer service also involves ensuring that the information taxpayers provide to the IRS will be kept secure. The IRS continues to work to protect our main computer systems from cyber incidents, intrusions and attacks, with our primary focus being on preventing criminals from accessing taxpayer information stored in our databases, as well as identifying fraud. Our core tax processing systems remain secure, and currently withstand more than one million attempts to maliciously access them each day.

We realize the solution we have in place today may be insufficient in the future, as criminal enterprises continue to invest to find ways to penetrate and exploit our systems. They are persistent and have demonstrated their ability to adapt. Their tactics are ever-changing, and so our protections must keep changing as well. We therefore must continue to invest in cybersecurity and find ways to collaborate across government. The supplemental funds that Congress provided over the last two years helped us make great progress, but continued investments are needed.

Protecting Taxpayers against Identity Theft and Refund Fraud

Along with protecting the taxpayer data we have, the IRS is also focused on protecting taxpayers who may have had their personal information stolen from outside the tax system by identity thieves, who use this information to file false returns and claim fraudulent refunds. In recent years, we have made steady progress in protecting against identity thieves, by employing information technology to assist in fraud detection.

An important advance that has helped us in the fight against identity theft has been the implementation of the Return Review Program (RRP). RRP is an integrated and unified system that enhances our ability to detect and potentially prevent tax non-compliance. During the 2016 filing season, RRP replaced the legacy Electronic Fraud Detection System (EFDS) as the government's primary line of defense against tax noncompliance in general and stolen identity refund fraud in particular. Continued investment in RRP will allow the IRS to retire EFDS and thereby address more sophisticated instances of identity theft more quickly.

Over the past two years, our progress against stolen identity refund fraud has accelerated, thanks to the collaborative efforts of the Security Summit Group, a unique partnership launched in March 2015 that includes the IRS, industry leaders and state tax commissioners. Our collaborative efforts have put in place many new safeguards beginning in the 2016 filing season that produced real results.

Since 2015 we have had fewer fraudulent returns entering our systems, fewer bad refunds going out the door, and fewer tax-related identity theft victims than in

previous years. To illustrate, the number of people who reported to the IRS that they were victims of identity theft declined from 698,700 in Calendar Year (CY) 2015 to 376,500 in 2016 – a drop of nearly half.

The decline has continued during 2017. In the first five months of this year, about 107,400 taxpayers reported they were victims of identity theft, compared to the same period in 2016 when 204,000 filed victim reports. That amounts to 96,000 fewer victims and represents a drop of about 47 percent. Taken together, the number of taxpayers over the last two years who reported being victims of tax-related identity theft has dropped by about two-thirds.

Providing for the Future of Taxpayer Service

In addition to ensuring that the basic taxpayer experience with the IRS is safe, secure and functional, the agency has been working for several years on longer-term improvements to the taxpayer experience and tax administration. In this effort, the IRS relies heavily on our information technology systems to help carry out these improvements.

Our goal is to have a more proactive and interactive relationship with taxpayers and tax professionals by offering them the services, tools and support they want, in ways that are both innovative and secure. We are effectively trying to catch up with the kinds of online and virtual interactions people already use in their daily lives to communicate with banks, retailers, medical providers and many others.

A major part of our initiative is developing an online account where taxpayers, or their representatives, can log in securely, get information about their account, and interact with the IRS as needed, including self-correcting some issues.

In December 2016, we took the first step toward this with the launch of an application on IRS.gov that provides information to taxpayers who have straightforward balance inquiries. Since its launch, this new tool has been used by taxpayers more than 1.7 million times. We recently added another feature that lets taxpayers see recent payments posted to their account. These balance-due and recent-payment features, when paired with existing online payment options, have increased the availability of secure, self-service interactions with the IRS through IRS.gov.

These are important steps, and over time, we will be adding other features to this platform as they are developed and tested with taxpayers and tax professionals. One of these features which is now in testing is Taxpayer Digital Communications. Taxpayer Digital Communications is intended to provide a secure online messaging capability so that taxpayers, their authorized representatives and IRS employees can correspond electronically and resolve issues more quickly than through traditional mail while maintaining security.

Providing the Taxpayer an Effective Point of Contact

Along the way, the IRS has come to realize that our efforts to move toward the future need to involve more than just online interactions between the IRS and taxpayers and their representatives. Therefore, our efforts to use technology more efficiently has evolved to cover the entire scope of the taxpayer experience, whether on-line or in person, and poses considerable opportunities for us and for taxpayers.

Our present case management system treats each issue involving a taxpayer as a separate case. And those cases are handled throughout the agency by more than 60 aging case management systems that often don't communicate with each other. So, when taxpayers with more than one pending issue calls the IRS, they have to be transferred from one area to another to get the assistance they need.

We are in the process of developing an Enterprise Case Management (ECM) system that will modernize, upgrade and consolidate our existing separate case management systems and give any authorized IRS employee the ability to see the entire range of issues and communications with an individual taxpayer.

This will be a major improvement for taxpayers who call or visit us to resolve an issue, because it means that any IRS employee they go to for help can easily access the history of their dealings with the agency, including previous paper or verbal communications. In that way, our employees can more quickly and easily answer taxpayer questions and resolve issues.

When completed, ECM will also increase our internal efficiency by giving us the ability to easily transfer cases between IRS divisions, since the basic information will be in a readily accessible database that does not require us to physically move a case from one system to another. This often involves printing, packaging and mailing hard copies from office to office.

Another initiative that will help the IRS improve the taxpayer experience is the Event Driven Architecture (EDA) framework, which will allow us to process tax returns in near-real time. Once in place, the EDA framework will allow the IRS to, for example, notify taxpayers of potential errors on a return as soon as it is filed, and let taxpayers quickly correct return errors online – a major advance over the current system, in which the IRS corresponds with taxpayers by mail regarding potential problems in their returns.

These and other improvements depend upon our continued development of the Customer Account Data Engine (CADE 2), which is our centralized database for all individual taxpayer accounts and allows IRS employees who are helping resolve taxpayer issues to easily access the taxpayer's information.

When fully implemented, CADE2 will replace the legacy Individual Master File (IMF), which historically has been the primary data source for individual taxpayer accounts. CADE2 is replacing the IMF in three major steps. It is important to note that this is a complex, multistep process – not a single, easily accomplished action. The steps we have undertaken thus far have already provided important improvements to our ability to interact with taxpayers efficiently and effectively.

CHALLENGES TO MODERNIZING IRS IT SYSTEMS

In recent years, Congress has tasked the IRS with implementing several legislative requirements. Satisfying these requirements has involved significant IT investments, diverting staff and resources that otherwise could have been used to continue modernizing our major IT systems and aging IT infrastructure.

These legislative requirements include those stemming from: the Affordable Care Act (ACA); the Foreign Account Tax Compliance Act (FATCA); the Achieving a Better Life Experience (ABLE) Act, which includes a new certification requirement for professional employer organizations; reauthorization of the Health Coverage Tax Credit (HCTC); a private debt-collection program; and a registration requirement for newly created 501(c)(4) organizations.

Loss of Streamlined Critical Pay Authority

The IRS also needs to be able to attract individuals from the private sector with highly specialized IT skills and expertise, particularly for our leadership positions in IT. In the past, the IRS has successfully recruited such individuals using streamlined critical pay authority that was enacted in 1998.

In fact, TIGTA noted in a 2014 report that the IRS had appropriately used this authority, by adequately justifying the positions, demonstrating the need to recruit or retain exceptionally well-qualified individuals, and adhering to pay limitations. This authority expired at the end of FY 2013 and has not yet been renewed.

The loss of streamlined critical pay authority has created major challenges to our ability to retain employees with the necessary high-caliber expertise in IT and other specialized areas. In fact, there are no longer any expert leaders or IT executives under streamlined critical pay authority at the IRS. The President's FY 2018 Budget proposes reinstating this authority, and we urge Congress to approve this proposal.

Chairman Buchanan, Ranking Member Lewis, and Members of the Subcommittee, this concludes our statement, and we would be happy to take your questions.